

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 59065

ABERDEEN SCHOOL DISTRICT No. 5

Grays Harbor County, Washington

September 1, 1996 Through August 31, 1997

Issue Date: May 15, 1998

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ABERDEEN SCHOOL DISTRICT No. 5
Grays Harbor County, Washington
September 1, 1996 Through August 31, 1997

**Independent Auditor's Report On Compliance And Internal Control Over
Financial Reporting In Accordance With *Government Auditing Standards***

Board of Directors
Aberdeen School District No. 5
Aberdeen, Washington

We have audited the financial statements, as listed in the table of contents, of Aberdeen School District No. 5, Grays Harbor County, Washington, as of and for the year ended August 31, 1997, and have issued our report thereon dated February 26, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional test of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the District complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the District's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the District and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would

be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 26, 1998

ABERDEEN SCHOOL DISTRICT NO. 5
Grays Harbor County, Washington
September 1, 1996 Through August 31, 1997

Independent Auditor's Report On Financial Statements

Board of Directors
Aberdeen School District No. 5
Aberdeen, Washington

We have audited the accompanying financial statements of Aberdeen School District No. 5, Grays Harbor County, Washington, as of and for the year ended August 31, 1997. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known. In addition, due to incorrect recording of the released fund balance reserved for debt service, the Capital Project Fund's debt service expenditures are understated by \$1,406,738.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Aberdeen School District No. 5 as of August 31, 1997, and the results of its operations and the cash flows of its nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 1998, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits*

of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has be subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 26, 1998

ABERDEEN SCHOOL DISTRICT No. 5
Grays Harbor County, Washington
September 1, 1996 Through August 31, 1997

**Independent Auditor's Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over Compliance In Accordance
With OMB Circular A-133**

Board of Directors
Aberdeen School District No. 5
Aberdeen, Washington

COMPLIANCE

We have audited the compliance of Aberdeen School District No. 5, Grays Harbor County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended August 31, 1997. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Finding 1 in the accompanying Schedule of Federal Findings, the District did not comply with requirements regarding reporting that are applicable to the School Lunch and Breakfast Program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended August 31, 1997.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Federal Findings as Finding 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 26, 1998

ABERDEEN SCHOOL DISTRICT NO. 5
Grays Harbor County, Washington
September 1, 1996 Through August 31, 1997

Federal Summary

The results of our audit of Aberdeen School District No. 5 are summarized below in accordance with OMB Circular A-133.

- We issued a qualified opinion on the District's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the District.
- We noted significant deficiencies in the design or operation of internal control over major federal programs that we consider to be reportable conditions.
- We issued a qualified opinion on the District's compliance with requirements applicable to its major federal programs.
- We reported a finding which is required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The District qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

CFDA Number

10.555

Program Title

School Lunch/Breakfast Cluster

ABERDEEN SCHOOL DISTRICT NO. 5
Grays Harbor County, Washington
September 1, 1996 Through August 31, 1997

Schedule Of Federal Findings

1. The lack of adequate internal controls over the National School Lunch Program resulted in the District over-claiming reimbursement.

Description of Condition

Our audit of the reporting requirement for the National School Lunch/Breakfast program at Aberdeen School District found various errors that resulted in a net over reimbursement of \$4,779 to the District. Information compiled by the individual schools was verified and monitored by the District and found to be accurate. However, when the information was summarized and entered on the reimbursement form, errors occurred. These errors are as follows:

	<u>Reimbursement Form</u>	<u>Reported By Schools</u>	<u>Amount Over (Under) Claimed</u>
November 1996 Free Breakfasts	\$ 8,635	\$ 8,269	366@\$1.0175 = \$ 372
February 1997 Reduced Lunches	2,028	2,796	(768)@\$1.4575 = (1,119)
Free Breakfasts	8,667	8,512	155@\$1.0175 = 158
May 1997 Free Lunches	27,579	24,689	2,890@\$1.1875 = <u>5,368</u>
			Total Over Claimed <u>\$ 4,779</u>

The District received \$584,927 for the National School Lunch/Breakfast program during the 1996-97 school year for meals served.

Cause of Condition

The District has no procedures in place to ensure the number of free and reduced meals claimed on the monthly reimbursement requests agrees with the total reported by the individual schools in their monthly counts.

Effect of Condition

When the District does not have adequate internal controls in place to ensure compliance with federal requirements, errors and noncompliance can occur and not be detected in a timely way, if at all, by the District. Such errors can affect the District's ability to receive future funding. For the 1996-97 school year, errors made resulted in a net over reimbursement of \$4,779 to the District.

Recommendations

We recommend the District develop and implement internal controls to ensure the number of free and reduced meals claimed is accurate. Such controls might include a reconciliation sheet, supervisory review of the reimbursement form, and supporting documents or other review procedures.

District's Response

We concur with the finding and will implement appropriate internal controls and procedures for monthly review of the meals claimed.

Auditor's Remarks

Based upon the District's response, it appears the situation is being properly addressed. We would like to thank the District's staff for its assistance and cooperation throughout the course of the audit.

Applicable Laws and Regulations

7 *Code of Federal Regulations* 210.8(a) states:

. . . The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement.